LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6377 | **NOTE PREPARED:** Dec 22, 2014
BILL NUMBER: HB 1605 | **BILL AMENDED:**

SUBJECT: Economic Development.

FIRST AUTHOR: Rep. Smaltz | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: <u>X</u> **GENERAL** | **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: This bill permits the Indiana Economic Development Corporation to award an EDGE+ bonus to taxpayers who are subject to the federal medical device excise tax (MDET) and create or retain jobs in Indiana. It provides that the EDGE+ bonus law does not apply after the date on which the MDET is repealed or expires under the Internal Revenue Code.

Effective Date: Upon passage.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise forms, update instructions, and modify the existing tax processing system to implement this bill. The DOR's current level of funding and resources should be sufficient to administer this tax credit.

Indiana Economic Development Corporation (IEDC): The IEDC will incur additional expenses to revise the existing EDGE approval process to incorporate the EDGE+ program. The IEDC's current level of funding and resources should be sufficient to administer this tax credit.

Explanation of State Revenues: *Summary* - The bill establishes a bonus EDGE+ credit for qualified taxpayers. The estimated revenue loss from taxpayers claiming EDGE+ credits may range from $2.3 M to $4.6 M per year in FY 2016 and FY 2017. The actual revenue loss associated with the bill depends largely on the number of applicants and the amount of credits authorized by the IEDC.

A qualified taxpayer is defined as a business that has a federal medical device excise tax (MDET) liability. The bill states that the EDGE+ credit is provided in addition to the standard EDGE credit for job creation or job retention. The credit may be offered for jobs created or retained by a qualifying taxpayer between May

15, 2015, and January 1, 2017. The tax credit goes into effect beginning in tax year 2015, and the revenue impact could begin in FY 2016. EDGE+ is a refundable credit that may be applied to the individual or corporate adjusted gross income (AGI) tax, Insurance Premium tax, or Financial Institutions tax liability. Credits claimed will directly reduce deposits to the state General Fund.

Additional Information - The EDGE credit is for businesses that either create new jobs in Indiana, or undertake projects to retain existing jobs in Indiana. Credit amounts are determined by the IEDC, but may not exceed the incremental income tax withholdings of new or retained employees. EDGE credits are awarded for up to 10 years during which the credit may be used. The IEDC is authorized to make EDGE credits refundable. The aggregate amount of credits awarded for projects to retain existing jobs in Indiana may not exceed $10 M per fiscal year. There is no limit on EDGE credits for new jobs. In 2012, the EDGE credit was claimed by 2,606 taxpayers for a total of $68.6 M.

The EDGE+ is a supplemental credit for taxpayers that have an MDET liability. The credit equals $5,000 per new job created in the taxable year. The credit for retaining jobs equals $2,500 per job retained in the taxable year. The credit may only be issued for jobs created or retained between May 15, 2015, and January 1, 2017. The bill also contains a provision that prohibits issuing and awarding EDGE+ credits if the MDET is repealed or expires.

The revenue estimate is based on the forecasted changes in employment within the medical device manufacturing sector between 2015 and 2016. The range of the estimate is derived from different growth rates used to forecast the sector employment, as well as assumptions on the percent of the total jobs that will be awarded the EDGE+ credit. The lower bound estimate assumes the total sector employment will grow at the historic rate since the passage of the MDET and assumes the credit will be awarded to businesses whose employees represent 5% of all medical device manufacturing jobs. The upper bound estimate assumes the total sector employment will grow at the historic rate before the passage of the MDET and assumes the credit will be awarded to businesses whose employees represent 10% of the total sector employment. Both revenue loss estimates were adjusted to account for the additional hiring of qualifying employees induced by the tax credit.

Federal Medical Device Excise Tax- The MDET is an excise tax imposed on the sale of certain medical devices by the manufacturer or importer of the device. The tax applies to the sale of taxable medical devices beginning in CY 2013. The tax equals 2.3% of the sale price of the device.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Indiana Economic Development Corporation.

Local Agencies Affected:

Information Sources: LSA Income Tax Database; Internal Revenue Service, *Excise Taxes (Including Fuel Tax Credits and Refunds), Publication 510*, revised July 2013; Bureau of Labor Statistics, Quarterly Census of Employment and Wages, Released June 20, 2014; Sasser, Alicia, New England Public Policy Center: *The Potential Economic Impact of Increasing the Minimum Wage in Massachusetts*, January 2006; Global Insights, Indiana Statewide Forecast, September 2014; U.S. Census Bureau, Annual Survey of Manufactures:

Geographic Area Statistics: Statistics for All Manufacturing by State: 2011 Refresh, Released December 17, 2013, accessed on November 29, 2014.

Fiscal Analyst: Heath Holloway, 232-9867.